



December 2015

CIVILIAN AND CONTRACTOR WORKFORCES

Complete Information
Needed to Assess
DOD's Progress for
Reductions and
Associated Savings

Why GAO Did This Study

With long-term fiscal challenges likely to continue, DOD must operate strategically and efficiently, including through cost-effective management of its human capital. Section 955 of the NDAA for Fiscal Year 2013 required DOD to, among other things, develop and implement a plan to achieve savings in the total funding for civilian and contractor workforces from fiscal years 2012 through 2017.

Section 955 also includes a provision that GAO review each of the Section 955 reports DOD submits to Congress to determine whether the required savings are being achieved and whether the plan is being implemented consistently with workforce-management laws.

This report addresses the extent to which (1) DOD, as shown in its September 2014 and February 2015 reports, is meeting the requirements specified in section 955 and (2) has achieved the cost savings required under section 955 and identified the savings in these reports. GAO reviewed the two reports DOD has submitted to Congress and supporting documents and interviewed cognizant officials.

What GAO Recommends

GAO recommends that the Secretary of Defense fully address ongoing section 955 requirements in its next two status reports to Congress. DOD generally concurred with the recommendation.

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Complete Information Needed to Assess DOD's Progress for Reductions and Associated Savings

What GAO Found

The Department of Defense's (DOD) September 2014 and February 2015 reports did not fully address most statutory requirements identified in section 955 of the National Defense Authorization Act (NDAA) for fiscal year 2013. Specifically, DOD partially addressed three statutory requirements and did not address three statutory requirements. For example, DOD's September 2014 report to Congress partially addressed the requirement to develop and implement a plan for achieving savings by outlining reductions in its civilian and contractor workforces, but DOD does not describe a process for implementing the planned reductions. Also, DOD did not address savings the department intends to achieve through reductions in the number of military, civilian, and contractor personnel. Instead the report outlined reductions in full-time equivalent (FTE) positions, which may not equate to savings, and did not outline savings in funding for the contractor workforce beyond fiscal year 2015. Without this information, Congress has limited assurance on how the department will achieve required savings and whether the savings will be achieved in a manner that is consistent with workforce-management laws.

Moreover, according to its reports, DOD has made civilian personnel reductions; however, GAO's analysis indicates that the reductions may not achieve the savings required by section 955, and DOD has not provided an explanation of the reasons for the projected shortfall in achieved savings in the contractor workforce. Section 955 requires DOD to achieve savings in the cost of the civilian and contractor workforces between fiscal year 2012 and fiscal year 2017 at least as large in percentage terms as the savings in military basic pay resulting from reductions in military end strength over the same period. In its section 955 reports, DOD reports on reductions to civilian FTEs, but does not report the civilian personnel savings associated with the reductions. Civilian FTEs by themselves, however, may not be reliable measures of the cost of the civilian workforce. For instance, GAO's analysis shows that from fiscal years 2012 through 2016, civilian FTEs declined by 3.3 percent, but civilian personnel costs declined by only 0.9 percent adjusted for inflation. Because DOD's focus has been on making and reporting on FTE reductions, DOD and Congress lack information on the extent to which the reductions will achieve savings, and DOD may risk falling short of the statutory requirement for cost savings in the civilian workforce. In addition, in its fiscal year 2016 budget, DOD shows a planned increase in spending on the contractor workforce that, if carried out, will mean that about half the reduction to contractor workforce spending that DOD has identified as its goal through fiscal 2017 remains to be achieved. Further, GAO's analysis shows that DOD would need to reduce its spending on the contractor workforce by about \$4.1 billion from fiscal year 2012 through fiscal year 2017 in order to match the approximately 7.0 percent reduction in military average strength over the same period. DOD has not provided an explanation of the reasons for the shortfall as required by section 955, in part because complying with other statutory requirements has been a main focus of DOD's efforts to limit spending on the contractor workforce. Without this information, it is uncertain whether DOD will achieve the required section 955 savings in contractor spending, which hinders Congress's insight into what additional actions are required to achieve this goal.

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Abbreviations

DOD	Department of Defense
FTE	Full-time Equivalent
OUSD	Office of the Under Secretary of Defense

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December 23, 2015

Congressional Committees

The Department of Defense (DOD) is the nation's largest employer, with a total workforce consisting of nearly 2.1 million active-duty and reserve military personnel, 756,000 full-time equivalent (FTE) civilian personnel, and 641,000 FTE service contractor personnel.¹ DOD's civilian and contractor personnel perform a wide variety of duties and responsibilities, including mission-essential combat support functions such as logistics support and maintenance. With long-term fiscal challenges likely to continue, DOD must operate strategically and efficiently, including through cost-effective management of its human capital.

Our prior work has emphasized the importance of DOD strategically determining, as part of its workforce planning, the appropriate workforce mix to perform the missions of the department, along with assessing personnel costs and effects on readiness. In May 2013, we found that DOD had not taken a holistic approach to managing its workforce requirements to achieve the appropriate balance using all three components—military, civilian, and contractor—of its total workforce, and to prioritize the achievement of a workforce sufficiently sized and of the appropriate mix to carry out DOD's mission.² We recommended that DOD revise its workforce policies and procedures to address the determination of the appropriate workforce mix. DOD partially concurred, stating that it was in the process of issuing guidance to its military, civilian, and contractor manpower management, and did not believe additional direction was necessary at the time of the report. As of October 2015, DOD has not taken action to fully implement the recommendation.

In the context of DOD balancing its civilian and contractor personnel with declines in military end strength, section 955 of the National Defense

¹We have previously found that DOD's contractor FTE estimates have significant limitations and do not accurately reflect the number of contractors providing services to DOD. See GAO, *Human Capital: Additional Steps Needed to Help Determine the Right Size and Composition of DOD's Total Workforce*, [GAO-13-470](#) (Washington, D.C.: May 29, 2013).

²[GAO-13-470](#).

Authorization Act (NDAA) for Fiscal Year 2013³ required the Secretary of Defense to, among other things, develop and implement an efficiencies plan to achieve savings in the total funding for civilian and contractor workforces that are not less, as a percentage, than savings in funding for basic military personnel pay resulting from reductions in military end strengths from fiscal years 2012 through 2017. Section 955 also required the Secretary of Defense to issue a series of reports on DOD's implementation of that plan, and includes a provision that we review each of the reports DOD submits to Congress to determine whether the required savings in the civilian and contractor workforces are being achieved and whether the plan is being implemented in a manner consistent with sourcing and workforce-management laws. This report addresses the extent to which (1) DOD, as indicated in its initial September 2014 report and February 2015 status report accompanying the fiscal year 2016 budget request, is meeting the requirements specified in section 955, and (2) has achieved the cost savings specified by section 955 and has identified the savings in these reports.

To determine the extent to which DOD, as indicated in its reports, is meeting the requirements specified in section 955, we analyzed DOD's September 2014 and February 2015 reports as well as related documentation, and compared them to the requirements in section 955. As of December 2015, these were the only two reports DOD had submitted. To conduct this assessment, two analysts independently reviewed DOD's September 2014 report using a scorecard methodology and assigned a score as to whether the document (1) addresses, (2) partially addresses, or (3) does not address the statutory requirements.⁴ The analysts then met to resolve any differences in their respective independent analyses, and the final assessment was reviewed by both our Office of General Counsel and team methodologist. In addition, we reviewed the September 2014 report and related documentation using the same methodology to assess the extent to which they contain information regarding compliance with the workforce management laws specified in

³Pub. L. No. 112-239, § 955 (2013).

⁴We assigned a rating of "addresses" if all elements of a statutory requirement were cited, even if specificity and details could be improved upon. We assigned a rating of "partially addresses" if DOD addressed one or more of the elements of a statutory requirement but did not address all of the elements of the requirement. We assigned a rating of "does not address" when elements of a characteristic were not explicitly cited or discussed or any implicit references were either too vague or too general to be useful.

the act.⁵ We also interviewed DOD and military service officials to determine the organizations, information, and assumptions involved in preparing the section 955 reports, and what guidance was provided to DOD and the military services to implement the savings consistent with the workforce-management laws specified in the act.

To determine the extent to which DOD has achieved the cost savings required under section 955 and identified the savings in the reports it has submitted to Congress, we reviewed and analyzed the civilian and contractor workforce reductions identified in these reports and associated budget documents. To assess DOD's progress towards its goal for civilian FTE reduction, we calculated, based on DOD's February 2015 report, (1) the FTE reduction that occurred from fiscal year 2012 through fiscal year 2014, the most recent year for which actual levels are available, and (2) the additional reduction that DOD has planned through fiscal year 2017. We then compared the percentage reduction in civilian FTEs from fiscal year 2012 to fiscal year 2017 to the percent reduction in military average strength over the same period.

To assess DOD's progress toward its goal for the contractor workforces, we calculated (1) the reduction that would be required for DOD to achieve its goal of matching the reduction in contractor workforce spending to the reduction in military average strength from fiscal year 2012 through fiscal

⁵The workforce-management laws against which we evaluated DOD's reports include sections 129, 129a, 2330a, 2461, and 2463 of Title 10 of the United States Code. Collectively, these laws establish a number of requirements for DOD's management of its total workforce. Section 129 outlines certain restrictions on DOD's management of civilian personnel, including a requirement that the number of civilian personnel shall be managed solely on the basis of and consistent with total-force management policies and procedures established under section 129a, workload requirements, and funds made available to department each fiscal year. Section 129a governs DOD's general policy for total-force management, and requires the Secretary of Defense to establish policies and procedures for determining the most appropriate and cost-efficient mix of military, civilian, and contractor personnel to perform the mission of the department, among other things. Section 2330a requires DOD to submit an annual inventory of activities performed pursuant to contracts for services, which, among other things, is required to include information concerning the number of contractor employees, expressed as full-time equivalents (FTE), subject to certain exceptions. Section 2461 requires DOD to perform a public-private competition prior to converting a function from civilian to contractor performance; however, there is currently a statutory moratorium on performing such competitions. Section 2463 states that the Under Secretary of Defense for Personnel and Readiness shall implement guidelines and procedures to ensure that consideration is given to using DOD civilian employees to, among other things, perform functions that are performed by contractors and could be performed by DOD civilian employees.

year 2017 that DOD included in its February 2015 report; (2) the reduction that has occurred from fiscal year 2012 through fiscal year 2014, the most recent year for which actual levels are available; (3) the increase that DOD has planned through fiscal year 2016, the latest year for which DOD provides contractor workforce spending levels; and (4) any shortfall between the required reductions and DOD's actual and planned reductions through fiscal year 2017.⁶ We also interviewed DOD and military service officials to obtain an understanding of why they selected the savings and reductions goals identified in the reports and the information upon which the goals are based. In addition, to assess the extent to which reductions in civilian FTEs may result in the required savings to the civilian workforce, as well as the extent to which reductions in military average strength result in a similar reduction to military basic pay, we reviewed DOD budget data on each data series for fiscal years 2012 through 2016 and calculated (1) the annual percentage change from year to year, and (2) the overall percentage change during this period, and reviewed these relationships.

We determined that the data contained in DOD's reports and related budget materials were sufficiently reliable for the purpose of reporting on and analyzing reductions to the civilian workforces in the context of data as presented by DOD. Specifically, we reviewed our previous reports that used workforce data, reviewed DOD instructions on the preparation and entering of these data, compared military and civilian personnel and funding to other data published by DOD, and discussed the reliability of the data with Office of the Under Secretary of Defense (Comptroller) (OUSD Comptroller) officials. For more information on our scope and methodology, see appendix I.

We conducted this performance audit from February 2015 to December 2015 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

⁶As discussed below, DOD states in both its reports that it does not project contract services funding beyond the budget year. As a result, we use the gap between DOD's fiscal year 2016 budgeted level and the required reduction according to our analysis for the purpose of identifying any shortfall.

Background

Section 955 Statutory Requirements

In January 2013, Congress enacted the NDAA for Fiscal Year 2013.⁷ Section 955 of the act (section 955) outlines statutory requirements for the Secretary of Defense to develop a plan to achieve savings in the civilian personnel and service contractor workforces of DOD. The act required the Secretary of Defense to

- develop and implement a plan to achieve savings in the total funding for civilian and contractor workforces that are not less, as a percentage, than savings in funding for basic military personnel pay resulting from reductions in military end strengths from fiscal years 2012 through 2017;
- ensure that the plan is consistent with policies and procedures required by 10 U.S.C. § 129a, and to ensure that the savings are not achieved through unjustified transfers of functions between or among the military, civilian, and service contractor personnel workforces of DOD, consistent with authorities available to the department under sections 129a, 2330a, 2461, and 2463 of title 10 of the United States Code;
- provide an initial report including a comprehensive description of the plan to achieve savings no later than 120 days after enactment of the NDAA;
- provide status reports describing the implementation of the plan in the prior year as part of the budget submitted by the President to Congress for each of fiscal years 2015 through 2018;
- in each status report, provide a summary of savings achieved through personnel reductions and the number of military, civilian, and contractor personnel reduced; and
- in each status report include an explanation where any savings fall short of the annual target.

⁷Pub. L. No. 112-239, § 955 (2013).

DOD's Reports and Roles and Responsibilities

DOD has submitted two reports to Congress in response to section 955. In September 2014, DOD issued its first report in response to section 955. DOD refers to the September 2014 report as its initial report. In February 2015, DOD provided a status report in budget justification materials that accompanied the President's budget request for fiscal year 2016. Both reports were developed by the Office of the Under Secretary of Defense (Comptroller) (OUSD Comptroller), which is the department's principal advisor on budgetary and financial matters and has responsibilities for developing and executing DOD's annual budget. Section 955 also requires that DOD's plan be consistent with policies and procedures required under section 129a of title 10 of the United States Code. According to 10 U.S.C. § 129a, the Under Secretary of Defense for Personnel and Readiness (USD P&R) has overall responsibility for the development of guidance on the implementation of policies and procedures for determining the most appropriate and cost-efficient mix of military, civilian, and contractor personnel to perform the mission of DOD. In addition, USD P&R is, among other things, to provide oversight policy, assess the size and shaping of the civilian workforce, and develop policies, plans, and programs to ensure the readiness of the total force.

DOD's September 2014 report outlined reductions achieved in civilian personnel for fiscal years 2012 and 2013 and planned reductions for fiscal years 2014 through 2019. The reductions in civilian personnel are further grouped by military component and civilian hiring status of direct, reimbursable, or foreign. The report also outlines reductions achieved in military personnel using military average strength by active, reserve, and National Guard status for fiscal years 2012 and 2013 and planned reductions for these personnel for fiscal years 2014 through 2019. Additionally, the report outlines reductions achieved in funding for contracted services for fiscal years 2012 and 2013 and planned reductions for contracted services for fiscal year 2014 and 2015.

Section 955 gave DOD authority to exempt certain civilian and contractor functions from reductions. Most of the September 2014 report provides details on these exclusions—for fiscal years 2012 through 2017. As a result, about 70 percent of the civilian workforce was excluded from the savings goals over the period. The exclusions are categorized by personnel functions such as depots, medical, and shipyards as well as by military component and the department's defense-wide agencies such as the Defense Commissary Agency and Defense Contract Audit Agency. Similar to the September 2014 report, the February 2015 report that was included in budget justification materials accompanying the President's budget for fiscal year 2016 outlines achieved and proposed civilian

personnel reductions for fiscal years 2014 through 2020 and reductions to contractor personnel spending through fiscal year 2016. In addition, the proposed reductions in civilian personnel are further categorized by hiring status, as in the initial report provided in September 2014. Further the February 2015 report details exclusions taken by the department based on the categories identified in the initial report—personnel functions, military components, and DOD’s defense-wide agencies.⁸ See table 1 for an overall summary of the reductions reported by DOD for each workforce.

Table 1: DOD-Reported Reductions to Civilian, Contractor, and Military Workforces from Fiscal Year (FY) 2012 through 2017

	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	Percentage change, FY2012 to FY2017 (percent)
September 2014 report^a							
Civilian (full-time equivalents [FTE] less exclusions)	294,194	274,134	282,893	272,237	271,067	268,155	-8.9%
Contractor (dollars in billions)	57.8	55.7	52.8	53.1	^b	^b	-8.2 ^b
Military (average strength)	2,256,495	2,228,469	2,199,048	2,155,250	2,106,550	2,071,900	-8.2
February 2015 report^a							
Civilian (FTEs less exclusions) ^c	237,954	220,012	222,506	222,020	221,948	221,717	-6.8
Contractor (dollars in billions)	57.8	55.7	54.6	51.9	55.8	^b	-3.5 ^b
Military (average strength)	2,256,495	2,228,469	2,189,779	2,145,021	2,121,840	2,098,250	-7.0

Source: Department of Defense (DOD). | GAO-16-172

Note: Data are from GAO summary of DOD section 955 reports and related documents.

^aAccording to DOD’s September 2014 Report, FY2012 and FY2013 are actual levels, FY2014 are enacted, and FY2015 through FY2017 are planned. According to the February 2015 Report, FY2012 through FY2014 are actual levels, FY2015 are enacted, and FY2016 and FY2017 are planned. Values for contractor workforces for February 2015 report are drawn from February 2015 report, September 2014 report, and related documents.

^bDOD has stated that it does not project contract services funding beyond the budget year, and therefore only provides contract spending through the budget year in both of its reports. Because of this, the percent change calculated for spending on the contractor workforce is between fiscal year 2012 and the latest year for which DOD provides data.

^cDOD’s February 2015 Report incorporated additional civilian exclusions, which reduced the number of civilian FTEs less exclusions.

⁸Working-capital funds are revolving funds established to finance inventories of supplies and other stores, or to provide working capital for industrial-type activities.

DOD's Reports Did Not Fully Address Most of the Statutory Requirements

DOD's September 2014 and February 2015 reports did not fully address most statutory requirements related to the civilian and contractor workforces. Specifically, of the six statutory requirements, DOD partially addressed three statutory requirements and did not address three statutory requirements. Table 1 summarizes the statutory requirements and our assessment of the extent to which DOD's reports addressed these requirements.

Table 2: GAO's Assessment of Statutory Requirements Addressed in DOD's Reports on Section 955 of the National Defense Authorization Act for Fiscal Year 2013

Statutory requirements from section 955 of the National Defense Authorization Act (NDAA) for Fiscal Year 2013	GAO assessment	GAO comments
Develop and implement a plan to achieve savings for the civilian workforce and contractor workforce that are not less, as a percentage, than savings in funding for basic military personnel pay resulting from reductions in military end strengths from fiscal years 2012 through 2017	Partially addressed	The initial report, submitted to Congress by the Department of Defense (DOD) in September 2014, outlines planned reductions in civilian personnel from fiscal year 2012 through 2019 in terms of full-time equivalent (FTE) positions, but does not describe a process for implementing the planned reductions to achieve savings. Further, the report does not provide information on the savings achieved from the reductions as required, and provides information on funding for the contractor workforce through fiscal year 2015 but does not project funding beyond that year.
Ensure plan is consistent with policies and procedures, implementing section 129a of title 10 of the United States Code. Additionally, the Secretary of Defense is to ensure that the savings are not achieved through unjustified transfers of functions between or among the military, civilian, and service contractor personnel workforces of DOD, consistent with authorities available to the department under sections 129a, 2330a, 2461, and 2463 of title 10, United States Code	Partially addressed	DOD's September 2014 report generally refers to elements present in workforce management laws such as defining the right mix of military personnel, civilians, and contractors needed to reflect new strategic priorities. However, the report does not provide any detail on how workforce savings are going to be achieved in a manner consistent with workforce-management laws and implementing policies and procedures.
Status reports to be included in the President's budget request for each fiscal year from 2015 through 2018 describing the implementation of the plan in the prior year	Partially addressed	The President's budget request for fiscal year 2015 was submitted to Congress in March 2014, but DOD's initial report was submitted in September 2014, or 6 months after the submission of the budget request. The status report for fiscal year 2016 was included in the President's budget request submitted in February 2015.
Provides initial report, including a comprehensive description of the plan, no later than 120 days after enactment of act	Not addressed	DOD did not address this requirement, submitting its initial report in September 2014, or about 16 months after the May 2013 due date. The initial report also did not include a comprehensive description of DOD's plan.

Statutory requirements from section 955 of the National Defense Authorization Act (NDAA) for Fiscal Year 2013	GAO assessment	GAO comments
In each status report, provide a summary of the savings achieved through personnel reductions and the number of military, civilian, and contractor personnel reduced	Not addressed	DOD's September 2014 and February 2015 reports do not include information that demonstrates that savings goals are being achieved for the civilian and contractor workforces. The reports do not provide savings for the civilian workforce but instead outline planned reductions in FTE positions. In addition, the 2014 and 2015 reports do not outline savings in funding for the contractor workforce beyond fiscal year 2015 and fiscal year 2016, respectively. Further, DOD compares savings in each workforce to reductions in military average strength levels, not military basic pay ^a
In each status report, include an explanation where any savings fall short of the annual target	Not addressed	DOD's February 2015 report shows a shortfall in savings for contractor personnel but does not provide an explanation for this shortfall.

Source: GAO analysis of DOD data. | GAO-16-172

Note: This assessment is based on the review of DOD's September 2014 and February 2015 section 955 reports.

^aBasic pay is the primary means of compensating members of the armed forces. With certain exceptions, every member is entitled to basic pay while on active duty.

During our discussions with OUSD Comptroller officials, they acknowledged that both reports did not fully address the requirements of section 955. Specifically, these officials stated that the reports did not include a comprehensive description of the implementation plan for the reductions, that they did not include savings achieved in total funding for civilian and contractor personnel, and that no specific actions were taken to ensure implementation would be consistent with workforce management laws. These officials explained that they did not fully address all of the requirements because they had to balance meeting the section 955 requirements with other competing priorities including completing the President's budget requests for fiscal year 2015 and 2016.

While DOD developed a plan for reductions in the civilian workforce, it did not provide details to understand how these reductions would be achieved or any information demonstrating that the goals were being achieved. As a result, one of the deadlines for the requirements—providing an initial report, including a comprehensive description of the plan, no later than 120 days after enactment of Act—has passed, and Congress does not have information on how the department will achieve required savings, and whether the savings will be achieved in a manner that is consistent with workforce-management laws.

Achieving Required Cost Savings in Civilian Workforce Is Uncertain Due to Incomplete Reporting by DOD, and Planned Increases in Contract Workforce Spending Pose a Challenge to Achieving Required Savings

DOD Has Made Civilian Personnel Reductions, but the Reductions May Not Achieve Required Savings

According to its section 955 reports, DOD has made civilian personnel reductions; however, our analysis shows that the reductions may not achieve the savings required by section 955. Section 955 requires DOD to achieve savings in the cost of the civilian and contractor workforces between fiscal year 2012 and fiscal year 2017 not less than the savings in military basic pay, in percentage terms, resulting from reductions in military end strength over the same period, and also requires DOD to report on the savings achieved in each of its annual status reports. In its reports, however, DOD provides information on reductions to civilian full-time equivalents (FTE), but does not report the civilian personnel costs associated with the reductions, and as a result it is not clear whether its reductions will achieve the savings required under section 955.

According to its September 2014 report, DOD does not project either military pay or civilian personnel costs beyond the budget year. As a result, DOD did not provide the information required by section 955. According to OUSD Comptroller officials, DOD does develop 5-year plans for civilian FTEs as a part of the process for both the annual budget and Future Years Defense Program (FYDP).⁹ In addition, according to these

⁹To provide information about its plans beyond the coming year, the DOD generally develops a 5-year plan, called the Future Years Defense Program (FYDP), which is associated with the budget it submits to Congress.

officials, FTEs are typically the primary measure they use in managing and reporting on DOD's civilian workforce. For example, Office of Management and Budget Circular A-11, which provides guidance on the preparation of the President's budget, uses FTEs as the main measure for the size of an agency's civilian workforce in certain contexts. As a result, OUSD Comptroller chose to use civilian FTEs and military average strength—which is the closest approximation to FTEs for military personnel—for the purpose of assessing compliance with section 955's savings requirement, rather than reporting savings in the cost of the civilian workforce compared to savings in military basic pay resulting from reductions in military end strength over the same period, as section 955 requires.

According to DOD's reports, it set a goal for achieving compliance with section 955 of reducing civilian FTEs less exclusions from fiscal year 2012 through fiscal year 2017 by the same amount, in percentage terms, as military average strength over the same period. As of DOD's February 2015 report, this goal amounts to approximately a 7.0 percent reduction in the civilian workforce from fiscal years 2012 through 2017. As discussed above, under section 955, DOD is permitted to exclude spending on certain portions of the civilian and contractor workforces from the required reductions. In its February 2015 report, DOD reported that of its approximately 776,000 civilian FTEs in fiscal year 2012, approximately 538,000 civilian FTEs, or about 69 percent, are covered by an exclusion. The approximately 7.0 percent reduction needed to match the reduction in military average strength applies to the remaining 238,000 civilian FTEs. In its February 2015 report, DOD reported that it had reduced civilian FTEs by 15,448 through fiscal year 2014, and has planned for an additional reduction of about 789 FTEs through fiscal year 2017. Together, these actual and planned FTE reductions represent a reduction of 6.8 percent from fiscal year 2012 to fiscal year 2017, compared to the 7.0 percent reduction in military average strength over the same period DOD set as its goal for achieving compliance with section 955.

Civilian FTEs and military average strength by themselves, however, may not be reliable measures of the cost of the civilian personnel workforce and military personnel basic pay, which section 955 requires DOD to use in measuring the savings it is to achieve. As shown in table 3, from fiscal year 2012 through fiscal year 2016, DOD's total civilian personnel costs increased by 2.9 percent in current year (non-inflation-adjusted) terms even as total civilian FTEs decreased. In constant (inflation-adjusted) terms, total civilian personnel costs decreased, though not as much as civilian FTEs. As a result, reductions to civilian FTEs may not achieve

commensurate savings, and larger FTE reductions may be required in order for DOD to achieve the savings required by section 955. Additionally, reductions in spending on military basic pay may have been more or less than reductions in military average strength over this period, depending on whether inflation-adjusted figures are used. As a result, using reductions in spending on military basic pay resulting from reductions in military end strength as its benchmark for savings, as section 955 requires, could mean that, depending on the treatment of inflation, either a smaller or larger reduction could be required for DOD to achieve the savings required by section 955 than if DOD were to continue to use reductions in military average strength as its benchmark. The effect of this difference over the period from fiscal years 2012 through 2016 is shown in table 3.

Table 3: Changes in DOD Personnel and Related Costs Changes, Fiscal Years (FY) 2012–2016

Percent	FY2012– FY2013	FY2013– FY2014	FY2014– FY2015	FY2015– FY2016	Overall change, FY2012–FY2016
Percent change in civilian full-time equivalents (FTE)	-3.4	-2.1	2.8	-0.4	-3.3
Percent change in civilian personnel costs measured in current year dollars	-1.6	0.0	3.3	1.2	2.9
Percent change in civilian personnel costs measured in FY2012 constant dollars	-1.9	-0.9	2.2	-0.1	-0.9
Percent change in military average strength	-1.2	-1.7	-2.0	-1.1	-6.0
Percent change in military basic pay measured in current year dollars	-0.6	-1.4	-2.3	1.1	-3.3
Percent change in military basic pay measured in FY2012 constant dollars	-2.3	-2.6	-3.3	-0.1	-8.1

Source: GAO analysis of DOD data. | GAO-16-172

Note: Data are from GAO analysis of the February 2015 section 955 report and budget materials.

OUSD Comptroller and military service officials told us that they do not normally project civilian or military personnel costs beyond the budget year, and therefore this information is not typically available. However, they also noted that it may be possible to estimate costs for the purpose of section 955 compliance. For example, some military service officials said they were able to estimate the cost associated with positions excluded under section 955, which, if subtracted from the total funding for the civilian workforce, could be used to help estimate the amount of savings under section 955. In addition, an OUSD Comptroller official

indicated military basic pay spending could be estimated based on budget year basic pay rates and projected strength levels.

Standards for Internal Control for the Federal Government note that agencies need operational and financial data to determine whether an agency is achieving its compliance requirements under various laws and regulations, monitor performance, and allocate resources.¹⁰ Because DOD's focus has been on making and reporting FTE reductions, not cost savings as required by 955, DOD and Congress do not have information on the extent to which the reductions will achieve savings, and DOD may risk falling short of the statutory requirement for cost savings in the civilian workforce.

DOD Had Made the Majority of Required Reductions to Contractor Workforce Spending, but a Planned Increase in Fiscal Year 2016 Poses a Challenge to Achieving Required Savings

Its September 2014 report indicated that DOD was on track to complete a majority of the reduction in spending on the contractor workforce required to meet its stated goal by fiscal year 2017. However, in its fiscal year 2016 budget, DOD shows a planned increase in such spending for fiscal year 2016, which would leave about half of the reduction required through fiscal year 2017 still to be achieved. DOD has not provided an explanation of the reasons for the shortfall as required by section 955.

Based on our analysis of DOD's section 955 reports and related documents, DOD would need to reduce its spending on the contractor workforce by about \$4.1 billion between fiscal year 2012 and fiscal year 2017 in order to match the approximately 7.0 percent level of reduction in military average strength over the same period.¹¹ As of its September 2014 report, DOD's planned reductions through fiscal year 2015 showed

¹⁰GAO, *Standards for Internal Control in the Federal Government*, [GAO/AIMD-00-21.3.1](#) (Washington, D.C.: November 1999).

¹¹In addition to achieving required savings in funding for the contractor workforce, section 955 requires DOD to, in each of its status reports, provide information on the number of contractor personnel reduced. DOD included contractor FTE data in its status report. We have issued several reports on DOD's efforts to compile and review its inventory of contracted services, which is one of the main sources of its contractor FTE data. In May 2013, we found that DOD's contractor FTE estimates had significant limitations and do not accurately reflect the number of contractors providing services to DOD. We recommended that DOD provide an explanation of the methodology used to project contractor FTE estimates and any limitations of that methodology or the underlying information to which the methodology is applied. See [GAO-13-470](#). DOD partially concurred with our recommendation; as of July 2015, this recommendation has not been addressed.

that, if they were maintained through fiscal year 2017, DOD would have been on track to achieve its stated goals for complying with section 955.¹² In its September 2014 report, DOD reported a budgeted level of spending on its contractor workforce of about \$53.1 billion for fiscal year 2015—a reduction of about \$4.7 billion compared to its fiscal year 2012 spending of about \$57.8 billion, which, if maintained through fiscal year 2017, would exceed its required reduction of \$4.1 billion from fiscal year 2012 through fiscal year 2017.¹³

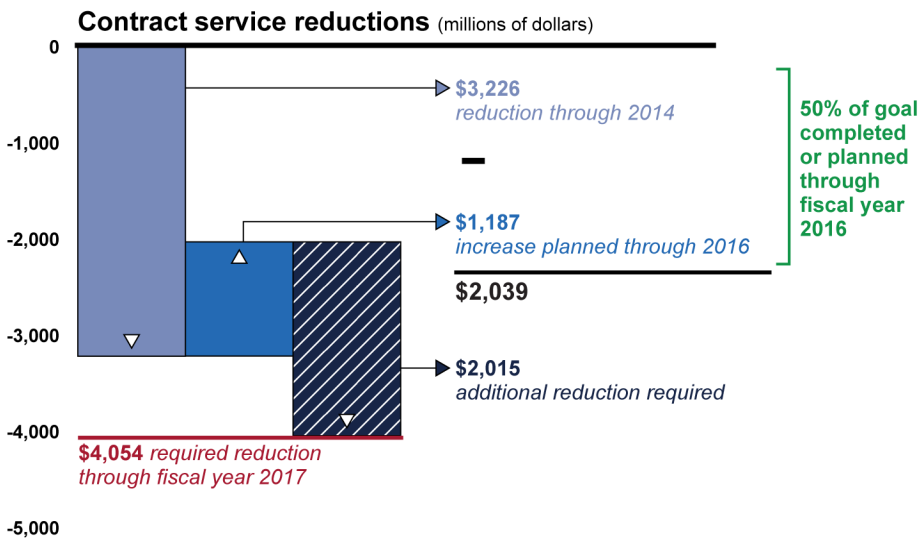
In its fiscal year 2016 budget, however, DOD has planned an increase in funding for the contractor workforce over fiscal year 2014 levels that could lead to a gap between DOD's stated goal for reductions and the reductions it has planned. As shown in figure 2, DOD reported having reduced contractor service spending between fiscal years 2012 and 2014 by about \$3.2 billion, or about 80 percent of the required reduction through fiscal year 2017. Between fiscal years 2014 and 2016, however, DOD budgeted for an increase in contractor workforce spending of about

¹²As discussed above, section 955 requires DOD to achieve savings in the cost of the civilian and contractor workforce not less, in percentage terms, than the savings in military basic pay resulting from reductions in military end strength. As with its reductions in civilian personnel discussed above, DOD assesses its compliance with section 955's savings requirements by comparing its savings in the contractor workforce to reductions in military average strength, not savings in military basic pay resulting from reductions in military end strength as required by section 955. Using reductions in spending on military basic pay resulting from reductions in military end strength as its benchmark for savings, as section 955 requires, could mean that, depending on the treatment of inflation, either a smaller or a larger reduction could be required for DOD to achieve the savings required by section 955 than if DOD were to continue to use reductions in military average strength as its benchmark.

¹³For the purposes of reporting on compliance with section 955's provisions related to savings in the contractor workforce, DOD used the same spending information as it uses for reporting on compliance with section 808 of National Defense Authorization Act for Fiscal Year 2012, Pub. L. No. 112-81 (2011), as amended, which we discuss below. In December 2014, we found that DOD inconsistently calculated spending limitations under section 808, therefore overstating its adherence to the limitations. In September 2015, we found that DOD had taken steps to improve its calculations beginning in fiscal year 2015. For more information, see GAO, *DOD Contract Services: Improved Planning and Implementation of Fiscal Controls Needed*, [GAO-15-115](#) (Washington, D.C.: Dec. 11, 2014); and *DOD Contract Services: Improvements Made to Planning and Implementation of Fiscal Controls*, [GAO-15-780](#) (Washington, D.C.: Sept. 30, 2015).

\$1.2 billion.¹⁴ If carried out, this will mean that about half the reduction to contractor workforce spending through fiscal year 2017 that DOD has identified as its goal remains to be made.

Figure 1: DOD Progress toward Its Goal for Contractor Workforce Reductions as of February 2015 Status Report



Source: GAO analysis of Department of Defense (DOD) information. | GAO-16-172

An OUSD Comptroller official told us that the increase in spending on the contractor workforce between fiscal years 2014 and 2016 was driven by a number of different needs, including additional requirements for facilities maintenance and contracted services to support readiness and training needs. In addition, the official stated that complying with spending

¹⁴As with civilian personnel spending discussed above, DOD states in both its reports that it does not project contract services funding beyond the budget year. As a result, we use the gap between DOD's fiscal year 2016 budgeted level and the required reduction according to our analysis for the purpose of identifying any shortfall. While the department does not project contract service funding beyond the budget year in its annual budget work, our ongoing work on DOD's contract requirements process has found that DOD components have some insight into their future spending on contracted services.

limitations under section 808 of the NDAA for Fiscal Year 2012,¹⁵ rather than section 955, has been a main focus of their efforts to limit spending on the contractor workforce in recent years. This was in part because, while section 955 requires that a certain level of savings be achieved by fiscal year 2017, section 808 was a recurring requirement for fiscal years 2012 through 2015, and has been a main focus for those years. The official also explained that the contracted services spending reported by DOD is volatile in part because some categories of contract services, such as maintenance of facilities and equipment, can be deferred based on the department's needs and available resources, including statutory limitations on spending such as sections 808 and 955.

Section 955 requires DOD to report on the savings achieved in each of its annual status reports and that, in any case in which savings fall short of the annual targets, the report shall include an explanation of the reasons for the shortfall. As discussed above, while DOD's status report acknowledges the shortfall, it does not provide an explanation of the reasons for the shortfall as required by section 955, nor does it provide an explanation of how it plans to address the shortfall by fiscal year 2017. During our discussions, OUSD Comptroller officials acknowledged that their reports did not fully address the requirements of section 955. These officials explained that they did not fully address all of the requirements because they had to balance meeting the 955 requirements with other competing priorities including completing the President's budget requests for fiscal year 2015 and 2016. In addition, OUSD Comptroller officials stated that they had assumed that the reports addressed all statutory requirements because the officials had briefed the congressional defense committees several times as they were preparing the reports and were not aware of any concerns the committees expressed regarding the reports. Without this information, however, it is uncertain whether DOD will achieve the required section 955 savings in contractor spending or

¹⁵Pub. L. No. 112-81, § 808 (2011), as amended by Pub. L. No. 113-66, § 802 (2013) and Pub. L. No. 113-291 § 813 (2014). Section 808 of the NDAA for Fiscal Year 2012, as amended, limits DOD's total obligations for contract services in fiscal year 2012 through fiscal year 2015 to the amount requested for these services in the fiscal year 2010 President's budget request, subject to certain offsets and exceptions. For example, section 808, as amended, allows DOD to adjust contract services spending above 2010 levels to account for (1) net increases associated with contract services that were transferred from overseas contingency operations to the base budget and (2) the cost of additional civilian personnel positions over fiscal year 2010 levels.

whether Congress will have the information needed to have insight into what additional actions are required to achieve this goal.

Conclusions

At a time when the entire federal government is facing fiscal challenges that are likely to continue, DOD must plan strategically for reductions to its civilian and contractor workforces to achieve savings. Fully meeting all of the requirements of section 955 would be a step in the right direction in this regard, and would provide Congress with assurance that the department is making progress. However, DOD's 2014 and 2015 reports did not meet the statutory requirements, and DOD needs to act quickly to ensure that its remaining two reports address these requirements and provide the needed assurance. Without information on actual savings in the civilian workforce rather than reductions in FTEs, Congress and DOD will not be positioned to determine whether the reductions will support section 955's overall savings requirements. Furthermore, decision makers in Congress will not be able to assess progress on meeting the savings requirements for the civilian and contractor workforces within the statutory time frame without information in the remaining status reports on any shortfalls and actions DOD is taking to address these shortfalls.

Recommendations for Executive Action

To help ensure that Congress has the necessary information to provide effective oversight over DOD's workforces, we are recommending that the Secretary of Defense direct the Office of the Under Secretary of Defense (Comptroller) (OUSD Comptroller), in collaboration with the Under Secretary of Defense for Personnel and Readiness (USD P&R), to address ongoing requirements in section 955 and include this information in status reports that accompany the President's budget request for fiscal years 2017 and 2018. The information to be included in future status reports includes

- a comprehensive description of a plan to achieve savings for the civilian workforce and contractor workforce for fiscal year 2012 through fiscal year 2017;
- a description demonstrating that the plan is consistent with policies and procedures implementing workforce-management laws and steps the department is taking to ensure that no unjustified transfers between workforces take place as part of the implementing plan;
- status reports to be included in the President's budget request for fiscal years 2017 and 2018 describing the implementation of the plan

in the prior year;

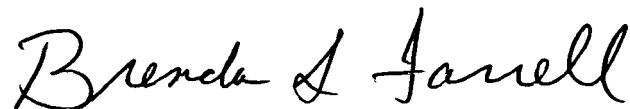
- the cost of covered civilian personnel and military basic pay for fiscal years 2012 through 2017, and an assessment of these costs in regard to their compliance with the statutory requirements set forth in section 955; and
- an explanation for any shortfall in its reductions for the civilian and contractor workforces, and a description of actions DOD is taking to achieve the required savings.

Agency Comments

We provided a draft of this report to DOD for review and comment. In its written comments DOD concurred with all five parts of our recommendation and provided clarifying comments for three of the parts. DOD's comments are reprinted in their entirety in appendix II.

We are sending copies of this report to the appropriate congressional committees; the Secretary of Defense, the Under Secretary of Defense (Comptroller); and the Under Secretary of Defense (Personnel and Readiness). In addition the report is available at no charge on the GAO website at <http://www.gao.gov>.

If you or your staff have any questions about this report, please contact me at (202) 512-3604 or farrellb@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made key contributions to this report are listed in appendix III.



Brenda S. Farrell
Director, Defense Capabilities and Management

List of Committees

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The Honorable Jack Reed
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Committee on Armed Services
United States Senate

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The Honorable Richard Durbin
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Committee on Appropriations
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The Honorable Adam Smith
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Committee on Armed Services
House of Representatives

The Honorable Rodney Frelinghuysen
Chairman
The Honorable Pete Visclosky
Ranking Member
Subcommittee on Defense
Committee on Appropriations
House of Representatives

Appendix I: Scope and Methodology

To determine the extent to which the Department of Defense's (DOD) September 2014 and February 2015 reports met the requirements specified in section 955 of the National Defense Authorization Act (NDAA) for fiscal year 2013, we reviewed DOD instructions and other related documentation to identify DOD's efforts to address the statutory requirements of section 955. Specifically, we reviewed DOD instructions governing the roles and responsibilities of the Office of the Under Secretary of Defense (Comptroller) (OUSD Comptroller), Office of the Under Secretary of Defense for Personnel and Readiness (USD P&R), and the military services. We interviewed knowledgeable officials from the OUSD Comptroller, USD P&R, and Department of the Army, Navy, and Air Force offices with responsibility for section 955. We discussed roles, responsibilities, information, and assumptions involved in preparing the plan and DOD reports. Additionally, we had discussions with OUSD Comptroller, USD P&R, and service officials to determine what guidance was provided to DOD to implement the plan, as described in its September 2014 report, consistent with workforce-management laws. Also, we provided written questions to each of the services to obtain their perspectives on the roles, responsibilities, information, and assumptions involved in preparing their proposed reductions.

Further, we requested documentation on the assumptions and data used to compile the September 2014 report and budget justification materials accompanying the President's budget request for fiscal year 2016. We requested documentation on DOD guidance to address section 955 requirements, but DOD officials said there were not aware of any documentation. We therefore relied on interviews with DOD and service offices to obtain this information. To determine the extent to which DOD met the requirements specified in section 955 of the NDAA for fiscal year 2013, we analyzed DOD's September 2014 report and February 2015 report and compared them to the statutory requirements in section 955. We conducted this assessment with two analysts independently reviewing DOD's September 2014 report using a scorecard methodology and assigned a score to determine whether the document (1) addresses, (2) partially addresses, or (3) does not address the statutory requirements. The analysts then met to resolve any differences in their respective independent analyses.

To determine the extent to which DOD has achieved the cost savings required under section 955 and identified the savings in its September 2014 report and February 2015 report, we reviewed and analyzed the civilian and contractor workforce reductions identified in these reports and associated budget documents. To assess DOD's progress towards its

goal for civilian full-time equivalent (FTE) reductions, we calculated, based on DOD's February 2015 report, (1) the FTE reduction that occurred from fiscal year 2012 through fiscal year 2014, the most recent year for which actual values are available, and (2) the additional reduction that DOD has planned through fiscal year 2017. We then compared the percentage reduction in civilian FTEs from fiscal year 2012 to fiscal year 2017 to the percentage reduction in military average strength over the same period.

To assess the extent to which reductions in civilian FTEs may result in the required savings to the civilian workforce, as well as the extent to which reductions in military average strength result in a similar reduction to military basic pay, we reviewed DOD budget data on each data series for fiscal years 2012 through 2016 and calculated (1) the annual percentage change from year to year, and (2) the overall percentage change during this period. We then compared the relationships between (1) civilian FTEs and personnel costs—both drawn from DOD's annual Operations and Maintenance overview submitted to Congress as part of its budget justification, and (2) military average strength as reported in the section 955 report and military basic pay as reported in DOD and service budget documents. In comparing these relationships, we used both current year (non-inflation-adjusted) and fiscal year 2012 constant (inflation-adjusted) dollars for civilian personnel costs and military basic pay. To produce the inflation-adjusted figures, we used the following deflators, as published by DOD in its National Defense Budget Estimates for Fiscal Year 2016: for civilian compensation, the "Civilian Pay" deflator; for civilian benefits, the "Total Excluding Pay, Fuel, and Medical" deflator; for military basic pay, the "Military Pay" deflator.

To assess DOD's progress towards its goal for the contractor workforce, we calculated the planned percentage reduction to military average strength from fiscal year 2012 through fiscal year 2017 that DOD included in its status report accompanying the fiscal year 2016 budget. Using that percentage reduction, we calculated the reduction that would be required to achieve an equivalent percentage reduction in contractor workforce spending. We then calculated, based on the data provided by DOD in its report and related documentation, (1) the reduction that has occurred from fiscal year 2012 through fiscal year 2014, the most recent year for which actual values are available; (3) the additional increase that DOD has planned through fiscal year 2016, the latest year for which DOD

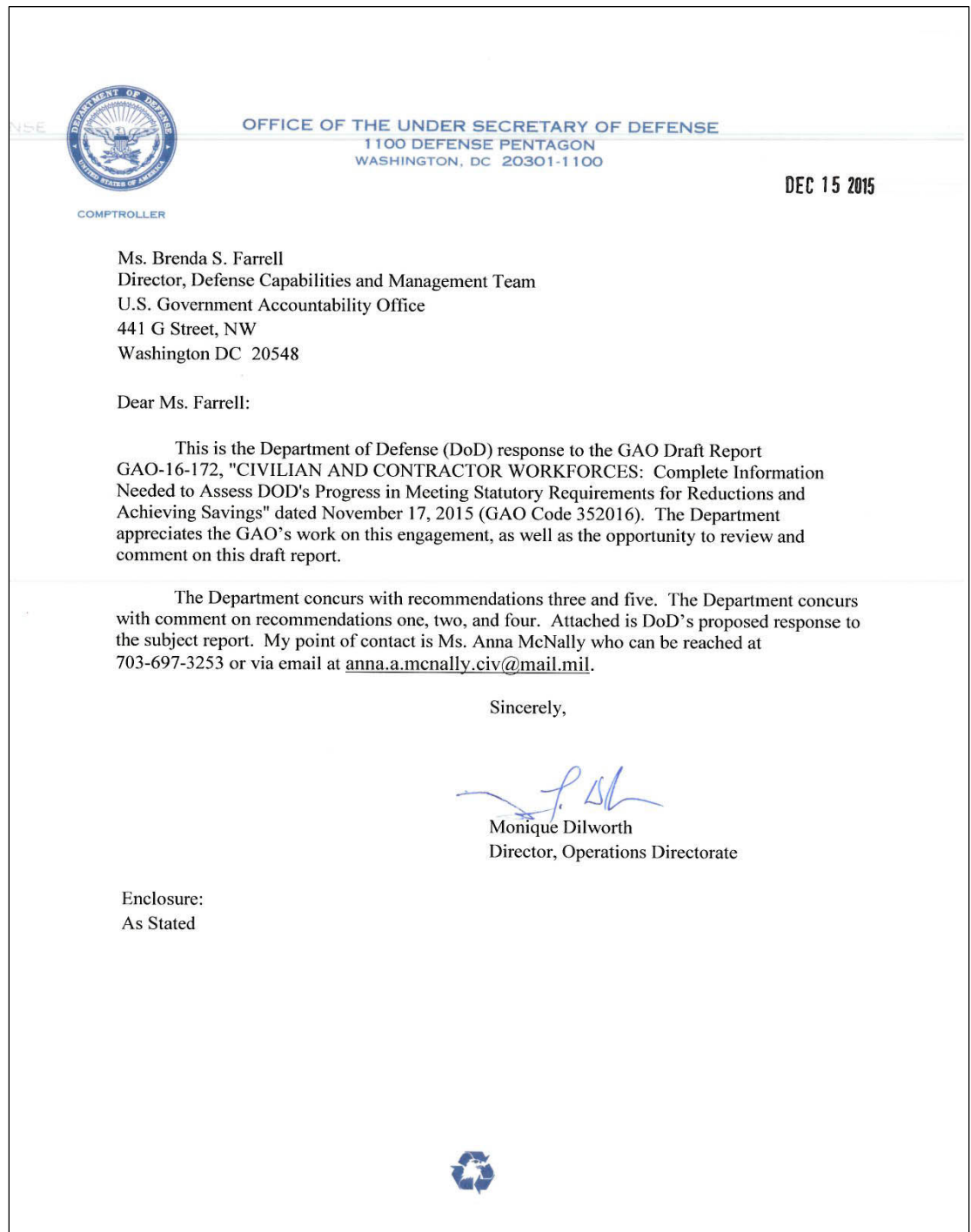
provides contractor workforce spending data; and (4) any shortfall between the required reductions and DOD's actual and planned reductions through fiscal year 2017.¹ To the extent that our analysis identified a shortfall, we interviewed OUSD Comptroller officials to understand the reasons for the shortfall. We also interviewed OUSD Comptroller officials about how and why they chose the goals and data that were included in their reports, as well as alternative approaches to collecting the data required by section 955.

According to OUSD Comptroller officials, the data on military, civilian, and contractor workforces included in their 955 reports and budget materials are based on data from the Comptroller Information System and Program Resources Collection Process. We determined that these data were sufficiently reliable for the purpose of reporting on and analyzing reductions to the civilian workforces. Specifically, we reviewed previous GAO reports that used workforce data, reviewed DOD instructions on the preparation and entering of this data, compared military and civilian personnel and funding to other data published by DOD, and discussed the reliability of the data with OUSD Comptroller officials.

We conducted this performance audit from February 2015 to December 2015 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

¹As noted in our report, DOD states in both its September 2014 report and its status report accompanying the fiscal year 2016 budget that it does not project contract services funding beyond the budget year. As a result, we use the gap between DOD's fiscal year 2016 budgeted level and the required reduction according to our analysis for the purpose of identifying any shortfall.

Appendix II: Comments from the Department of Defense



GAO DRAFT REPORT DATED NOVEMBER 17, 2015
GAO-16-172 (GAO CODE 352016)

**“CIVILIAN AND CONTRACTOR WORKFORCES: COMPLETE INFORMATION
NEEDED TO ASSESS DOD'S PROGRESS IN MEETING STATUTORY
REQUIREMENTS FOR REDUCTIONS AND ACHIEVING SAVINGS”**

**DEPARTMENT OF DEFENSE COMMENTS
TO THE GAO RECOMMENDATION**

**Department of Defense Response to GAO Recommendations for the inclusion of
information in future status reports that accompany the FY 2017 and FY 2018 President's
Budget request**

The GAO recommends that the Department of Defense (DoD) address ongoing requirements in section 955 and include additional information in status reports that accompany the President's Budget request for Fiscal Years 2017 and 2018. The following DoD responses are provided to the respective GAO recommendations:

Recommendation one: A comprehensive description of a plan to achieve savings for the civilian workforce and contractor workforce for fiscal year 2012 through fiscal year 2017

Response: Concur with comment. The DoD submitted its initial section 955 report in September 2014 for information reflected in the FY 2015 President's Budget. The report reflected the Department's year by year plan to achieve the savings for the civilian and contractor workforce reduction by FY 2017 which resulted from the Department's program and budget process, as well as a comprehensive workforce to workload review that had been completed. The Department concurs with including a more robust description of the initiatives that comprised the plan to achieve savings for the civilian and contractor workforce.

Recommendation two: A description demonstrating that the plan is consistent with policies and procedures implementing workforce management laws and steps the department is taking to ensure that no unjustified transfers between workforces take place as part of the implementing plan

Response: Concur with comment. The Department's plans to date are consistent with and reflect workforce shaping and workload sourcing requirements, as well as other criteria pertaining to manpower requirement such as risk mitigation. The Office of the Secretary of Personnel and Readiness remains actively engaged in decisions affecting the workforce. The

Department's Planning, Programming, Budgeting and Execution System (PPBES) process helps to ensure that there are no unjustified transfers between workforces and that any changes are made in accordance with workforce management laws. The Department will include a statement similar to the above in the next section 955 report.

Recommendation three: *Status reports to be included in the President's Budget request for Fiscal Years 2017 and 2018 describing the implementation of the plan in the prior year*

Response: Concur.

Recommendation four: *The cost of covered civilian personnel and military basic pay for fiscal years 2012 through 2017, and an assessment of these costs in regard to their compliance with the statutory requirements set forth in section 955*

Response: Concur with comment. The Department will address cost savings in terms of fully burden civilian personnel cost along with total military personnel compensation that includes allowances.

Recommendation five: *An explanation for any shortfall in its reductions for the civilian and contractor workforces, and a description of actions DOD is taking to achieve the required savings*

Response: Concur.

Appendix III: GAO Contact and Staff Acknowledgments

GAO Contact

Brenda S. Farrell, (202) 512-3604 or farrellb@gao.gov

Staff Acknowledgments

In addition to the contact named above, Vincent Balloon, Assistant Director; Timothy Carr; Timothy DiNapoli; Beth Reed Fritts; Amie Lesser; Daniel Ramsey; Terry Richardson; Ophelia Robinson; John Van Schaik; Allen Westheimer; Erik Wilkins-McKee; and Michael Willems made key contributions to this report.

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